



**MCI Communications
Corporation**

1801 Pennsylvania Avenue, NW
Washington, DC 20006

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October 1, 1996

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Re: Ex Parte CC Docket 96-45 - Federal-State
Joint Board On Universal Service

Dear Mr. Caton:

On Monday, September 30, 1996, Jonathan Sallet, Michael Pelcovits, and I of MCI spoke with Chairman Reed Hundt, John Nakahata, Joe Farrell, and Richard Metzger. The purpose of the meeting was to review MCI's position in this proceeding as stated in MCI's comments. The attached document was used during the meeting and lists the topics discussed.

Due to the late hour of the meeting, two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules the next business day.

Sincerely,

Kimberly M. Kirby

Attachment

cc: Chairman Reed Hundt
John Nakahata
Joe Farrell
Richard Metzger

No. of Copies rec'd
List A B C D E

Blueprint for Universal Service

Jonathan Sallet

Chief Policy Counsel

MCI Communications Corporation

September 25, 1996

Preservation and Advancement of Universal Service

- ◆ Replace Existing High Cost Fund
- ◆ Use Hatfield To Explicitly Size Subsidy
- ◆ Adopt Unitary Fund
- ◆ Require All Carriers To Pay on a Competitively-Neutral Basis
- ◆ Preserve Service to Low Income Users
- ◆ Connect Schools, Libraries, Health Care Providers

Replace Existing High Cost Fund

- ◆ The 1996 Act mandates explicit -- not implicit -- subsidies
- ◆ Must be independent of access charges
- ◆ Embedded cost is inconsistent with Interconnection Order:

“We first set forth generally, based on the current record, a cost-based pricing methodology based on forward-looking economic costs, which we conclude is the approach for setting prices that best furthers the goals of the 1996 Act”

Hatfield Sizes Explicit Subsidy

- ◆ Hatfield determines cost per line in each density zone
- ◆ Hatfield includes capital costs for all network components and includes expenses such as joint and common costs
- ◆ Hatfield enables model user to specify the rate that must be supported

Hatfield Model “Refined” Not “Redesigned”

- ◆ Version 2.2.2 implements TELRIC to determine the explicit amount of subsidy
- ◆ Hatfield 2.2.2 is not a “redesigned” model but rather a “refined” version of earlier models
 - Best matches TELRIC approach of the Interconnection Order
 - Uses existing switching locations, off-the-shelf technology, and current engineering practice
 - Assumptions are explicit and can be changed
 - Cost information derived from on-the-record sources

Hatfield is Superior to Other Models

- ◆ BCM2 was an attempt by the LECs to “catch up” with the innovations contained in the Hatfield Model
- ◆ Hatfield 2.2.2 goes well beyond the improvements introduced by the ILECs in BCM2
- ◆ BCM2 and PacBell models are much more closed, proprietary models than HM2.2.2

A Unitary Fund Gives States a Key Role

- ◆ The FCC generates the entire amount of the Unitary Fund and distributes it to the states
 - Amount based on the difference between the nationwide average of basic universal service (\$20.00) and the TELRIC based on Hatfield 2.2.2
- ◆ States determine the distribution among eligible carriers based on the subsidy needed on a per line basis

All Carriers Must Pay

- ◆ All carriers providing telecommunications services must pay into the fund
- ◆ Payments based on total net revenues
- ◆ FCC may exempt certain carriers

Preserve Basic Universal Service For Low-Income Users

- ◆ MCI's Universal Service Fund preserves the Life-Line and Link-Up programs
 - MCI's Universal Service proposal maintains a subsidy that supports basic universal service for low-income users

Connect Schools and Libraries to the Internet

- ◆ Provide Internet Access At or Below Cost
- ◆ Provide Discounts to Low-Income and Rural Schools
- ◆ Target Discounts for High-Bandwidth Services
- ◆ Determine the Total Connection Cost
- ◆ Require Schools to Have a State-Approved Plan
- ◆ Promote Competition Among Service Providers

SUPPORT PEOPLE, NOT MONOPOLIES

To make sure that telephone service is affordable for all Americans, universal service funding was established many years ago.

Where does all the money go?

Right now the cost of providing universal service is between four and six billion dollars. But, to provide universal service, the monopoly Regional Bell Operating Companies collect \$14 billion from people who make interstate telephone calls and they collect even more from in-state long distance.

And you pay too much for telephone service.

Where does the excess money go? Right. To the profits of local telephone companies.

The new Federal Telecommunications Act can change all that as federal and state officials work to reform universal service. They can change all that by adopting these principles of universal service.

Principles of universal service

First, encourage competition. Vibrant competition is the first step to ensuring that prices are low and that service is broadly available.

Then establish a separate fund, outside the control of the monopoly telephone companies, that is the amount needed to ensure access — no

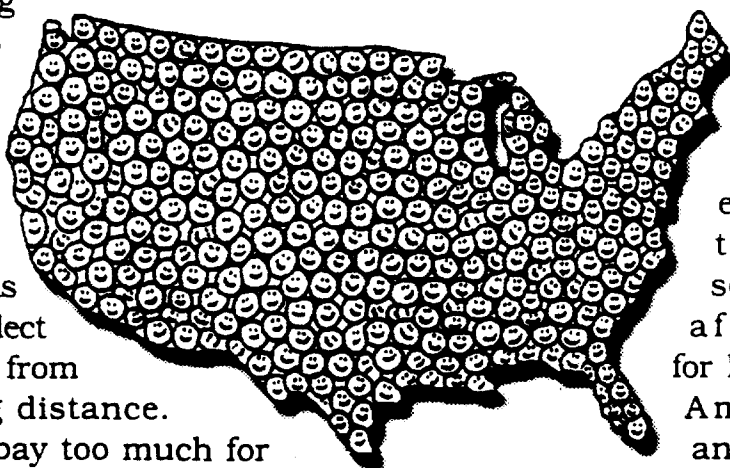
more, but no less.

Third, use the fund to ensure that telephone service is affordable for low income Americans and people who need it in

rural America. Use it also to provide our schools, public hospitals and libraries with the technology they need.

Finally, reject the idea that fixing universal service requires you to pay more.

Then the people will be served, not the monopolies.
Competition. Just Make it Work.



Matrix of Universal Service Issues

	Individuals	High-Cost Places	Institutions
Eligible Services	MCI Maintain Lifeline and Linkup	MCI -- Single party service to the first point of switching; local usage; -- touch tone; -- white pages listing -- access to 911, E911, operator services, directory assistance and relay service	MCI -- Data grade (Internet) service with incentives for broader bandwidth
Eligible Participants	MCI Low-Income People	MCI All/High-Cost Residents	MCI Schools, Libraries with state approved plans
Calculation of Subsidy	MCI Lifeline and Linkup would be maintained as targeted subsidy programs for low-income consumers	MCI Difference between the TELRIC (Hatfield) cost and the current nationwide average rate for basic service.	MCI TELRIC with larger discounts for (I) low income areas (II) greater bandwidth
Competitively Neutral	MCI 1. True Competition is the first step. 2. All subsidies are explicit and in fund. 3. The subsidy is recovered from all telecommunications carriers based on their relative revenues, net of payments for the services of other telecommunications carriers 4. Neutral Administrator	MCI Same as "individuals" and: A "carrier of last resort" auction would be held for any area that is or becomes unserved	MCI Same as "individuals" and: Requirement of competitive bidding
Evolution	(e.g., Call Waiting)	(e.g., Call Waiting)	(e.g., ISDN)